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SUBJECT: Secretary Johanns' Visit Advances Relationship

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11. (U) SUMMARY AND COMMENT: Secretary for Agriculture Mike Johanns headed a Presidential Delegation which visited Mongolia July 12-13. During very cordial meetings with President Enkhbayar and Prime Minister Enkhbold, Johanns conveyed President Bush's congratulations on Mongolia's 800th anniversary and expressed appreciation for Mongolia's continued support in Iraq and Afghanistan. Johanns applauded Mongolia's economic and democratic progress and urged continued reforms. Enkhbold expressed the hope that a Millennium Challenge Account Compact could be accelerated and that a Free Trade Agreement could be concluded. The PM also reviewed a laundry list of his administration's achievements. The rosy summation exhibited selective memory at the least, but evidently is the spin the PM is trotting out for visiting foreigners. END SUMMARY AND COMMENT.

Secretary's Program

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12. (U) Secretary for Agriculture Johanns headed a Presidential Delegation which visited Mongolia July 12-
113. The U.S. Presidential Delegation was a late addition to the long list of high-level visitors during the Naadam period, but the GOM quickly arranged events which emphasized the importance they attach to the bilateral relationship: a last event of the day meeting with the President on July 12 which allowed additional time for informal exchange with Enkhbayar; a dinner hosted by the Foreign Minister on July 12; and a breakfast hosted by Prime Minister Enkhbold on July 13. After sitting next to Enkhbayar on July 13 to view a portion of the games, Secretary Johanns toured craft vendors assisted by the Ger Initiative and a herder aided by the Gobi Initiative. Both programs are funded with a mixture of ESF and the monetized proceeds of wheat donated by the U.S. Department of Agriculture.

Secretary Johanns Conveys President's Congratulations

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13. (U) During the meetings with President Enkhbayar and Prime Minister Enkhbold, Secretary Johanns noted that he met with President Bush on Monday, July 10. He conveyed President Bush's personal regards and congratulations on Mongolia's 800th anniversary. Secretary Johanns expressed the USG's gratitude for

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Mongolia's continued support for the war on terrorism and its troop contributions in Iraq and Afghanistan. He encouraged Mongolia to continue its economic reform and democratic transformation efforts. The USG applauded these efforts and would continue to support them.

Meeting With President Enkhbayar

13. (U) The 40-minute session with President Enkhbayar -- held at a site near the horserace finish line -- was equally divided between a formal session inside the presidential ger and a period outside in which the President showed off his race horses. During the meeting, Enkhbayar (who is also commander-in-chief) emphasized the importance of the bilateral relationship for Mongolia. He expressed particular appreciation for "very good" military-military cooperation, and the very good support Mongolia has had from the United States, both to increase the Mongolian Armed Forces' peacekeeping capacity and to bolster defense reform.

PM: GOM Grateful for US Support; Seeks MCC Compact, FTA

14. (U) Prime Minister Enkhbold hosted Agriculture Secretary Johanns for a 70-minute breakfast on July 13.

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Minister for Agriculture and Food Terbishdagva attended, but was largely silent throughout, except for a few asides to the PM. Secretary Johanns applauded

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the Mongolian Parliament's recent passage of anti-corruption and anti-money-laundering legislation and encouraged their full and speedy implementation. Johanns noted USDA has several programs which have benefited Mongolia's people and the USG remains committed to their continuation.

15. (U) The PM responded that Mongolia was grateful to receive the President's delegation as well as the recent U.S. Congressional and UN resolutions congratulating Mongolia on its 800th anniversary. He reiterated the Government of Mongolia's appreciation for President Bush's November 2005 visit and his affirmation of the U.S. as Mongolia's "third neighbor". He noted Mongolia had indeed benefited from U.S. assistance programs, including the USDA's, for which Mongolia was grateful. The PM said that Mongolia is eager to conclude a Millennium Challenge Account compact soon, adding some had become discouraged by the lengthy period needed to conclude the compact; the PM hoped this process might be accelerated. He noted the GOM seeks a Free Trade Agreement with the U.S. and hopes to increase agricultural cooperation as well. Secretary Johanns reviewed recent trends with regard to

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MCC compacts and implementation, stressing the importance of making progress on corruption. Johanns added his own visit underscored the USG's desire to increase economic and commercial ties as part of our comprehensive partnership, and he planned to brief the President about his visit to Mongolia upon returning to Washington.

PM Lists His Administration's "Greatest Achievements"

¶6. (U) The PM reviewed the "social challenges" his government has faced since assuming power in January. He ticked off a laundry list of his administration's achievements, including fulfillment of several 2004 electoral campaign promises:

- a 30% increase in public sector salaries, raising average monthly salaries from Tugruk 92,000 to Tugruk 129,000 (\$76 and \$107, respectively), an effort which he described later as vital to anti-corruption efforts;
- a pilot program for 110,000 Ulaanbaatar school children to begin having free school breakfasts, with a plan to implement the program nation-wide later this year;
- mothers over 55 would receive stipends, with those having more than five children receiving Tugruk 50,000 per month and those having more than eight children receiving Tugruk 100,000 per month;
- newlyweds would receive Tugruk 500,000 and parents of newborn babies would receive Tugruk 100,000;
- all children will receive Tugruk 3,000 per month drawing upon the recently created stability fund created using funding gained through the law enacted in June covering windfall profits taxes on copper and gold,
- closure on a long-languishing 2003 US\$300 million loan agreement with China;
- a soft loan (\$27 million) from Japan to help fund and promote small and medium enterprise development had been concluded during the PM's April visit to Tokyo;
- greater GOM-donor coordination in the form of regular six-month Technical Meetings with donors (Note: These were initiated by the World Bank; the first was held in February 2006 and the second is scheduled for early October); and,
- Parliament had recently reduced corporate, personal, and value-added taxes, and had sought new sources of revenue.

Comment: A Rosy and Selective Summation from the PM

¶7. (SBU) The PM's summation is evidently the presentation he used with the avalanche of visiting foreign dignitaries during Naadam. ExIm Bank Senior Vice President McAdams heard largely the same list a few days before. The PM has put the rosier possible spin on his government's efforts, even applying some

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selective memory. The bulk of the domestic proposals were shared visions under the previous coalition government and are fiscally unsustainable. The China loan is largely destined to "buy Chinese goods and services," and the Japanese concessional loan is largely unnecessary, as local banks are awash in funds but have difficulty finding worthy projects. Over \$200 million of the loan is to be used to construct -- with Chinese equipment and labor -- a hydroelectric project on the Eg River in Khuvsgol province, a proposal previously proposed in 1998 by then PM (and now Deputy Prime Minister) Enkhsaikhan, but rejected by Parliament at the time for environmental and technical reasons. Paying mothers to have babies harkens back to the Soviet era, and fortunately is "self-righting," as Mongolians tend to scale back family size to two or three children as their wealth increases. End comment.

¶8. (U) Secretary Johanns did not have an opportunity to clear this cable prior to departing.

Slutz